

VZCZCXRO7684
RR RUEHCHI RUEHDT RUEHHM
DE RUEHJA #0300/01 0360846
ZNR UUUUU ZZH
R 050846Z FEB 07
FM AMEMBASSY JAKARTA
TO RUEHC/SECSTATE WASHDC 3134
INFO RUEATRS/DEPT OF TREASURY WASHDC
RUCPDO/DEPT OF COMMERCE WASHDC
RUEHRC/USDA FAS WASHDC
RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHDC
RUEHJS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS
RUEHKO/AMEMBASSY TOKYO 0201
RUEHHE/AMEMBASSY HELSINKI 0874
RUEHBY/AMEMBASSY CANBERRA 0388
RUEHTC/AMEMBASSY THE HAGUE 3292
RUEHSM/AMEMBASSY STOCKHOLM 2043
RUEHBS/USEU BRUSSELS
RHHMUNA/USCINCPAC HONOLULU HI
RUEAIIA/CIA WASHDC
RHHJJAA/JICPAC HONOLULU HI
RUEKJCS/JOINT STAFF WASHDC
RHEFDIA/DIA WASHDC

UNCLAS SECTION 01 OF 06 JAKARTA 000300

SIPDIS

SENSITIVE
SIPDIS

AIDAC

DEPT FOR EAP/MTS AND EB/IFD/ODF
TREASURY FOR IA - SETH SEARLS
USDA FOR FAS/EC/MCHAMBLISS
NSC FOR MORROW and MELINE
USAID FOR ANE/EAA

E.O. 12958: N/A

TAGS: [EAID](#) [ECON](#) [PGOV](#) [KCOR](#) [EINV](#) [ID](#)

SUBJECT: TSUNAMI RECOVERY AND TRANSFORMATION - ACEH AT TWO YEARS

REF: A) 06 JAKARTA 13604; B) 05 JAKARTA 16372; C) 05 JAKARTA 16521

11. (SBU) Summary. Aceh is undergoing a remarkable transformation and recovery since the devastating December 2004 tsunami. All displaced persons are out of tents and in houses or temporary shelters. New or renovated houses are everywhere and the International Federation of the Red Cross (IFRC)'s temporary shelter program has been a huge success, although thousands still reside in barracks. The Reconstruction and Rehabilitation Agency for Aceh and Nias (BRR), along with non-government organizations (NGOs), donors and local governments, are dealing with substandard construction and other challenges due to fraud related to the 900 contractors operating in Aceh. The west coast road is slow but passable: USAID has repaired and is maintaining the section from Banda Aceh to Lamno and construction has already begun in three of five priority sections. Several rebuilt ports can now receive ships with reconstruction supplies. Local infrastructure -- water, sanitation, and electricity -- is still inadequate in several areas and overall electricity generation capacity is not sufficient for new construction. Simuelue and Nias islands are facing reconstruction delays related to logistics: fewer ships and planes can access the islands with rebuilding materials. Donors and BRR are working to address this.

12. (SBU) Summary -- Continued. Aceh's economy is experiencing a boom, with more economic activity now than before the tsunami and a remarkable new openness taking root. Inflation remains high, but is gradually receding. Banking activity is growing, as people who formerly hid money under the mattress during the conflict deposit their funds in local banks. Construction is creating jobs, though many Acehnese lack skills. Fishing is largely restored and plantations left unattended during the conflict are being replanted. Manufacturing still has not recovered, but donors including USAID are helping support trading companies, livelihood programs and

small-to-medium enterprise development. We report via septel on challenges facing BRR, Aceh politics and GAM reintegration as it relates to reconstruction. End Summary.

Why Are the Barracks Still Full?

13. (U) Officers from Embassy Jakarta and Consulate Medan made a January 16-20 swing through Meulaboh and Banda Aceh to observe progress on reconstruction from the December 2004 earthquake and tsunami. With billions of dollars of assistance pouring in for

SIPDIS

rebuilding and post-conflict programs, and hundreds of foreigners working throughout the province, Aceh has been flung open to the world. People move freely in streets and markets without fear.

14. (U) The picture is particularly optimistic on the housing side. All displaced persons are out of tents and in houses, temporary shelters or barracks. The estimates of the number of people in the deteriorating barracks vary from 5,000 to 70,000. It is clear, however, that the number of persons living in barracks in Meulaboh, West Aceh has been virtually unchanged for the last six months. There are several explanations for this. Much of the barracks population is mobile and includes a number of renters and squatters. Some residents prefer the barracks because their new houses have not yet been hooked up with water or electricity. Other barracks residents told us their new houses are too close to the sea and they are still too traumatized by the tsunami to go back. One significant factor appears to be that after the tsunami, many victims fled to neighboring cities or moved in with relatives rather than go to the tent camps. As space becomes available, some members of this group are relocating to vacant spaces in the barracks.

JAKARTA 00000300 002 OF 006

15. (U) NGOs in Meulaboh point out that some barrack dwellers are Acehnese from poorer inland districts who are attracted to the robust economic activity in the tsunami-affected areas. Representatives from an international NGO told us that it is often difficult to separate the economic migrants from the actual tsunami victims when building houses. Some in the barracks are migrant workers from other parts of Indonesia, rather than tsunami victims, taking advantage of widely available reconstruction work. Others do not have clear land title, never owned land or have complex family situations such as divorce. BRR wants to close all the barracks by June 2007, a goal which is likely impossible given the many unresolved issues of barracks occupants. BRR notes in its two-year report that, "The validation and verification of beneficiaries to filter out the fraudulent and non-legitimate claims is an extremely time consuming exercise and has caused unwanted delays in the overall reconstruction."

New Houses Everywhere, But Corruption an Issue

16. (SBU) Despite the problems, new houses can be seen everywhere in Aceh. Our interlocutors gave special praise to houses built by USAID implementing partner CHF, along with housing donated by the Turkish Red Crescent. However, a significant portion of BRR-built homes have been criticized as inferior. This is in part due to the fact that the homes many donors built exceed the minimum standards established by BRR, making the BRR houses relatively less desirable.

Even so, BRR itself acknowledges that about 1,700 of its contracted houses were substandard and failed to comply with the agency's own standards. BRR is now renovating some of the houses found to be problematic. Another issue is that while BRR mandated earthquake resistant housing, "a widespread lack of technical understanding of seismic design and construction detail...and a lack of safety culture lead to irresponsibility on the part of building contractors," BRR noted in its update report. Thus housing of varying quality is being built, but many residents are using their own funds to improve or expand donor-built houses. A substantial number of people are better housed than they were before the tsunami.

17. (SBU) Several observers told us the IFRC's temporary shelter program has been very successful and helped get many residents out of tents. The transitional shelters were very well received, and many residents have attached them to their new houses or kept them for extended family or storage. In other cases, local governments provided land so that large clusters of these shelters could be constructed in order to decommission tents. The sturdy shelters are impressive, with treated wood and simple metal frames.

18. (SBU) All NGOs, many government officials and journalists we met complained about the corruption associated with construction contractors. In many cases, donors have had to divert resources from programs to monitoring and supervision of construction. Companies that wind up on informal black lists of unreliable contractors simply re-form under a different name. Some expressed disappointment that BRR was not doing a better job of monitoring contractors, but admitted the agency doesn't really have the resources to do so. BRR told us that one person may control a dozen different contracting companies or could register with false information, making enforcement difficult. BRR encourages NGOs to check out prospective contractors and test them with a smaller project before handing them a larger one.

Roads and Ports: Steady Improvements

JAKARTA 00000300 003 OF 006

19. (SBU) Over 1,500 kilometers of roads have been repaired in Aceh and Nias. On the badly damaged west coast road between Banda Aceh and Meulaboh, USAID is assisting BRR and provincial authorities in their efforts to complete land acquisition and to provide access to the road right-of-way for the Banda Aceh-Calang segment. USAID has repaired and is maintaining the section from Banda Aceh to Lamno. Construction has begun in three of five priority sections. The construction of this \$240 million road remains the signature USAID project in Aceh, but land access and cost overruns continue to delay the work. The Multi-Donor Fund's temporary section from Lamno to Calang is in worse shape. Calang's damaged port has delayed progress upgrading and maintaining the west coast road because large ships with reconstruction supplies cannot berth.

110. (U) Japan will complete most of the reconstruction and repairs to the 122-kilometer section of the west coast road from Calang to Meulaboh by the end of June 2007. Several donors and Acehnese told us the 155 kilometers journey from Banda Aceh to Calang takes approximately five hours, a considerable improvement from a year ago when the road was largely impassable. The main roads in Meulaboh, which were pitted with gigantic holes when we visited in December 2005, are now freshly paved. Meulaboh port, restored by Singapore, now has a wharf large enough for trucks to unload the shiploads of cement and other supplies coming in for reconstruction. The Netherlands and Singapore helped restore Malahayati port in Aceh Besar, and ferry terminals at Ulee Lheu (Banda Aceh) and Balohan (Weh Island) have also been refurbished. The port at Kuala Langsa in the west is currently undergoing renovation and ports at Calang (west coast) and Sinabang (Simuelue) await reconstruction. BRR told us it hoped all the west coast ports could be completed by the end of 2008. The Asian Development Bank (ADB) is funding rehabilitation of the 490-kilometer east coast road from Banda Aceh to the North Sumatra border, but has yet to begin construction.

111. (SBU) When the Indonesian military (TNI) hastily re-routed and repaired the west coast road on an emergency basis shortly after the tsunami, it used some private land but failed to compensate all

SIPDIS

owners. In December 2006, some villages set up ad hoc roadblocks demanding informal tolls of about a dollar and compensation from vehicles seeking to pass. The International Federation of the Red Cross told us some of its vehicles could not pass at all in December and had to turn back. After a few weeks, the provincial and local governments helped resolve this issue by promising compensation.

Local Infrastructure: Lots to Do

¶12. (SBU) Providing water, sanitation and electricity to newly constructed homes remains a significant problem. An official from the Meulaboh office of the Ministry of Public Works told us that some NGOs are taking on these types of infrastructure projects in some areas and working out memoranda of understanding (MOU) with local governments. Right now NGOs are doing about 80% of the infrastructure work, with BRR doing about 20%. Local governments and BRR are promising to finish projects which NGOs cannot complete or provide. The World Bank-managed Multi-Donor Fund (MDF), which still has \$160 million remaining, has joined with BRR to create the \$273 million "Infrastructure Reconstruction Financing Facility" for roads, sanitation and water and other infrastructure projects. According to several observers, one reason infrastructure remains a problem is that local governments are spending their money on areas not affected by the tsunami because they believe that BRR or others will eventually step in to improve infrastructure damaged by the tsunami.

SIPDIS

¶13. (U) Aceh suffered \$50 million of damage to its electricity

JAKARTA 00000300 004 OF 006

generation and transmission capacity after the tsunami, and there is not enough electricity to support all the new construction in Aceh. BRR is addressing this by working with bilateral donors and international financial institutions to develop new power plants and improve power distribution. Australia and New Zealand are helping to plan a geothermal plant and Japan is providing assistance for a hydropower project in Bireun, but these could take five years or more.

Remarkable Economic Recovery...

¶14. (U) Despite long-term challenges, the amount of economic activity now throughout the province is visibly greater than before the tsunami. In Banda Aceh a new, earthquake-resistant international hotel is full of visitors and serving banana splits and chocolate eclairs in its cafe. At least two more international quality hotels are also planned. Elsewhere, markets are humming, mosques are repaired or under renovation, coffee shops are packed, new restaurants are going up. However, the inflow of large amounts of money, the scarcity of many types of construction supplies and equipment, and the presence of free-spending agencies has brought high inflation. Inflation was a huge problem in 2005, causing several donors to cut by half or more the number of housing and other projects they could carry out. In Banda Aceh, the provincial capital, houses today cost typically ten times as much to rent as they did prior to the tsunami. Year-on year inflation remained high at 14% in October 2006, but is nonetheless significantly lower than the 35% YoY rate in January 2006.

¶15. (U) The Aceh Regional Development Bank (BPD) reports that deposits and loans increased significantly in 2006. Many who during the conflict kept money under the mattress are now placing it in banks. The BPD opened 15 new branches in 2006 and plans another 25 new branches in 2007 for a total of 55. Indicators from 2002-2005 show a steady increase in assets and deposits.

Table 1: Banking Indicators in Aceh

Banking Indicators	2002	2003	2004	2005
Assets (Rp trillion)	7,608	9,880	10,784	16,588
Deposits (Rp trillion)	6,083	7,656	7,952	13,887
Credit (Rp trillion)	1,578	2,123	3,201	3,634
LDR % (Loan-to-deposit ratio)	26%	28%	40%	26%

NPL % 2.98% 2.65% 2.80% 3.06%
(Non-performing loans)

Source: BRR Two-Year Update Report

But Employment Concerns Remain...

¶16. (U) Construction jobs are creating livelihoods for some Acehnese, but many lack the necessary skills and several contractors are using labor from outside Aceh. Many fishing communities have been reestablished, although more infrastructure is needed to support the fishing industry, including transportation, refrigeration, processing. Some donors and advisors have noted that

JAKARTA 00000300 005 OF 006

more needs to be done to develop "mid-level" processing related to agricultural products as well as attracting investors to develop large-scale manufacturing. During the conflict, plantation companies abandoned thousands of hectares of oil palms and rubber trees when Javanese trans-migrants, who had been brought in to work the plantations, fled. Farmers left other land unplanted during the conflict because they were reluctant to invest in crops such as coffee, cocoa and vanilla which required more than one season to produce. Firms from Indonesia, Singapore, and Malaysia have already started to compete for lucrative plantation properties which were neglected during the conflict. However, some observers worry that the boom times won't last and that once the donors leave, an economic contraction may be inevitable.

¶17. (U) In the manufacturing sector, two large fertilizer factories (PT Pupuk Iskandar Muda and Asean Aceh Fertilizer), a cement company (Cement Andalas) and a large pulp and paper company (Aceh Kraft Paper) have shut down, resulting in the layoffs of thousands of workers. Cement Andalas announced in mid-January its intention to invest \$450 million in the construction of two new cement factories in Aceh Basar and Langkat, North Sumatra, providing 850 jobs, though the company did not mention a timeline. Donors and BRR are helping to develop Aceh's private sector by training and lending to trading companies and other businesses in the small-to-medium enterprise sector. Some Indonesian and foreign businesses have expressed concern, however, about Aceh's less-than-welcoming sharia environment for outside investment. The new governor-elect, Irwandi Yusuf, shares these concerns and has promised to moderate the enforcement of sharia in the province.

Social Issues Remain a Concern

¶18. (U) Many Acehnese who lost spouses during the disaster have re-married and are starting new families. However, some residents have not yet recovered from the trauma of the disaster, and break down in tears when talking about it. One of Indonesia's two largest Islamic NGOs, Muhammadiyah, reports that it continues to provide care throughout the province for more than one thousand tsunami orphans. Counselors point out that a "victim mentality" is beginning to show in some cases. Some people feel dependent or disempowered, finding it easier to take handouts than build a new life. Now that donors are supplying many of the basic essentials such as shelter and health care, some NGOs are responding to the emotional needs by training counselors to help with disaster trauma. The overall impression, however, is that people are moving on.

New Disaster: Severe Flooding in December

¶19. (U) Of the 70,000 hectares of farmland damaged by the tsunami, donors and ordinary Acehnese brought 50,000 back into production. However, heavy rains in December 2006 flooded several districts in Aceh as well as in North Sumatra and Riau provinces, temporarily displacing more than 200,000 people and destroying the first crops since the tsunami in some areas. One area, Aceh Tamiang, was 90% submerged, with many roads and bridges completely destroyed. The World Food Programme worked with the Indonesian military (TNI) and local governments to distribute food and non-food items to the flood victims and the UN began the rehabilitation phase in mid-January.

The UN and other donors are supporting local government efforts to clean the mud from buildings, replace tools and equipment, and again restore farmlands.

¶20. (U) Some observers told us that the severe floods happened early enough in the rice growing season that the rice harvest should

JAKARTA 00000300 006 OF 006

partially recover. BRR told us that it can help at the outset of new disasters due to its presence and network, but then local governments must take over: BRR has its hands more than full with tsunami-related issues. In the tsunami-affected areas, BRR notes

SIPDIS

that flood control infrastructure is under-funded and that community practices of dumping garbage into drains is exacerbating the problems. One clear lesson from the December floods, however, is that the local governments have improved their capacity to deal with this type of emergency.

Simuelue and Nias Islands

¶21. (U) Simuelue Island has presented difficult logistical problems.

Ferries serve the island only twice a week and trucks wait for ferry space to transport supplies, sometimes for several days. BRR has attempted to ameliorate these problems by rebuilding Simuelue's airport and extending the airstrip to make it long enough for C-130 transport aircraft to land and bring in outside supplies. Contractors are respecting BRR requests not to cut down local trees for lumber, but don't have a good logistics plan to bring in outside supplies. BRR is giving contractors an extra incentive to rebuild Simuelue by offering twice the money (Rp 84 million or \$9,200 instead of Rp 42 million or \$4,600) for a house there. One NGO told us, "Simuelue is still a mess, but it was a mess even before the tsunami." Money is flowing slowly to Simuelue however, despite the

SIPDIS

problems, and the island is getting its first asphalt road.

¶22. (U) Like Simuelue, Nias Island's logistical problems are challenging. Nias was lesser developed than Aceh before the tsunami, and reconstruction on the island has lagged. BRR notes in

SIPDIS

its two-year tsunami update report that Nias's port facilities in Gunung Sitoli are too small to handle the volume of reconstruction materials required. Flights to Nias are unreliable and the airstrip is too short to accommodate large aircraft. Donors and contractors have been substituting smaller vessels at an alternate jetty for shipments but there are bottlenecks. Donors and BRR are working on ways to improve road infrastructure and bring in trucks, timber, steel frames for housing and other items needed in Nias. Numerous media reports indicate that local corruption may also be contributing to the problem. Donors and BRR are recognizing the need to focus more attention on Nias.

PASCOE